DSWD
Department of Social Welfare and Development

SECRETARY JUDY M. TAGUIWALO STATEMENT ON THE PROPOSED TAX REFORM

INTRODUCTION

Ladies and gentlemen, members of the House of Congress, colleagues from the Government, a pleasant afternoon.

The Department of Social Welfare and Development, in analyzing and offering its comments to the tax reform package under House Bill No. 4774, used its decades of experience of working with the poor, marginalized, and the vulnerable of our society.

We welcome the initiative of Congress to reform the current Philippine tax structure as an opportunity to review and revise our outdated income tax. Our country has the second highest personal income tax in ASEAN, and it constricts economic activity and growth.

Our economic managers are well aware of this.

We also understand that the tax reform package aims to fund the President's ten-point socioeconomic agenda and massive infrastructure plan. Upon implementation, the Department of Finance expects its proposal to result in revenues that will enable the administration to fund the priority infrastructure, education, health and social protection programs of the government.

Amongst many alternatives of revenue generation, through heightened household economic activity and consumption to efficient tax collection system, the DOF conveniently chose to propose an increase in excise tax of oil and gasoline products and expansion of the value-added tax base.

Here, we put our lens in favor of the poor and the vulnerable.

DSWD POSITION

DSWD expresses its deep reservations concerning two major items in the tax reform package that will effectively increase prices of consumer goods, food, services, transportation, etc:

1. Expansion of VAT on sale of services and use or lease of properties; and
2. Higher excise tax on oil and gasoline products.

We also register our disapproval to the planned one-year unconditional cash transfer as cushion to the commodity and public utility price increases brought about by the two general tax increases.

DISCUSSION POINTS

HBN 4774 proposes to expand coverage of the value-added tax (VAT) for sale or exchange of services particularly on sales by CDA-registered agricultural cooperatives, credit or multi-purpose cooperatives, and non-agricultural, non-electric, and non-credit cooperatives. It also removed exemptions on the sale of real properties utilized for low-cost and socialized housing and lease of a residential unit with a monthly rental not exceeding ten thousand pesos (P10,000.00). Finally, the bill included money remittance centers that should remit 12% VAT.

On the money remittance centers' VAT, we ask: What is the proponents' definition of "money remittance centers"? Would it include our Pantawid Pamilyang Pilipino bank conduits? If so, who do they pass the tax burden to: the DSWD or the Pantawid beneficiaries?

DSWD's Sustainable Livelihood Program (SLP) and Kalahi-CIDSS seek to empower the poor and marginalized through community organizing. We lament that the proposed tax package may discourage our stakeholders from creating cooperatives. We also wish to point out that cooperatives play a large role in the social and economic lives of rural Filipinos. We hope that government would not remove whatever relief they have from existing VAT laws.

Based on PSA data, one in five Filipinos were poor in 2015. On the family level, 16.5% of Filipino families, or 3.8 million families, were poor. This means that these families have an average monthly income below PhP 9,100.00. Sixty percent of their income goes to food expenditures. Twelve percent of income goes to utilities and transportation combined. In the end, they have very little, no savings, or even negative savings (for the first decile).[1] *Ang Pilipino, isang kahig, isang tuka. Baon pa sa utang.*

With such existing conditions of the Filipino poor, what should we expect from these indirect and consumption tax increases?

A DISASTER WE CAN AVOID; A SUPER TYPHOON WE CAN EVADE

DOF acknowledges that food, public utilities, transportation, and other commodities' prices will increase as an outcome of the excise and value-added tax increase. It will affect the lives of all Filipinos, the poor and vulnerable, most especially. Hence, DOF proposes cash transfers to ten million households and cash cards to public utility vehicles for one year.

---

[1] Source: PSA Family Income and Expenditure Survey, 2015.

This scenario is as ominous as it is demeaning to Filipinos. DSWD values human dignity in its development of social welfare programs. We cannot fathom allowing a year of long queues for card applications, for cash payouts, for grievances and complaints of loan sharks waiting for willing prey, of local and national government offices turning into markets during cash payouts. And what to do about those who will be excluded from the cash transfers due to the arbitrary target and inherent errors in the targeting system?

DOF's low inflation assumption forwarded to Congress was debunked by the recent inflation rate recorded by the Philippine Statistics Authority. PSA reported a 3.3% inflation rate in February from a 2.7% level in January. The trajectory for an increased inflation environment seems to be taking its roots now. DOF estimates that the tax reform will provide an additional 1.5% inflation. The US Fed has also signaled to increase their interest rates. Using these information, are we looking at the Philippine bubble, bolstered by low interest rate regime and inflation targeting, ready to burst? Are we courting an economic crisis with this tax reform package?

But economics is not our cup of tea. We hope that the Bangko Sentral ng Pilipinas can provide better figures and forecasts to Congress on this matter.

We stand for our Pantawid beneficiaries whom we aim to overcome poverty in the next five years. Inflation in the past eight years has already eroded the real value of the cash grants. If at all, DOF's planned additional 300 pesos per month for one year cash transfer would only cover the lost real value, not the price increases.

DOF's plans have missed a scenario for natural or human-induced disasters. Experience has told us otherwise. Hydro-meteorological disasters are the new normal in these times. Price increases brought by the excise and sales taxes will exert much pressure to DSWD's supply chain of relief good production, warehousing, and transportation.

But this is the least of our concerns. We stand for the poor, marginalized, the indigenous peoples who are most vulnerable to disasters. They, who will bear the brunt of the taxes, would be doubly victimized by coming natural calamities.

OUR APPEAL TO THE MEMBERS OF CONGRESS

We humbly appeal to Congress to prudently and conscientiously deliberate DOF's tax reform proposal. We have not envisioned the Philippines as a country of dole outs, of coupons, or of cash cards. Filipinos are worth more than that.

This tax reform discussion presents us an opportunity to examine different alternatives to earn public revenue and to scrutinize the tax collection system and policies. We believe that we should not be limited with the DOF's tax proposals for revenue generation. We reiterate the call of other stakeholders to improve tax collection efficiencies and stronger political will to bring to justice those who have brazenly ignored and undermined the effectiveness of our tax courts.

As our gates are always open for the poor and vulnerable, we extend an invitation to our economic managers to visit our centers, facilities, and communities. There you will see what they do not have but assumed, in computations, they enjoy: CHOICE.

We are open to collaborate with you in the achievement of our common goals for the people. Let us work together to bring down poverty through convergences of our programs.

Gikan sa masa, para sa masa!